

TERMS AND CONDITIONS of the ArmRusGasProm CJSC License for the Import of Natural Gas

1. Definitions

Some definitions of concepts used in this License are defined as follows:

Distributor – a legal entity that has been issued a License for the distribution of natural gas.

Commission – the RoA Energy Regulatory Commission.

License – a document issued to a legal entity by the ERC, that confirms the right to carry out natural gas import activity into the RoA in compliance with the terms and conditions established in the Energy Sector.

Licensee – “ArmRusGasProm” CJSC, which is entitled to import natural gas into the Republic of Armenia.

Importer – a legal entity that has been issued a License for the import of natural gas into the Republic of Armenia.

Transporter – a legal entity that has been issued a License for the transportation of natural gas.

Consumer - as specified in the RoA Energy Law.

Natural Gas Distribution Network or Distribution Network – technical system of gas distribution pipelines, gas control points, facilities and equipment necessary for their reliable and safe operation, by which the natural gas is delivered (gas supply) to Consumers located in a certain territory.

Natural Gas Transportation Network or Transportation Network – a system of main gas pipelines, gas-distribution stations, gas storage, compressor plants, equipment necessary for their reliable and safe operation, and operative control systems (including central dispatch service), united by organizational, technical and (or) economic links and operational modes, by which natural gas is transported from the Gas Import and

Generation Licensees to the Export, Distribution and, in certain cases, directly to the Gas Consumers. The border zones of the Transmission Network are the following:

- a) such points on the RoA state border, where the gas pipelines of the Transporter join the gas pipelines of a neighboring country;
- b) connection nodes of the Transporter and Distributor gas pipelines.

Force Majeure - causes or events that are beyond the reasonable control of, and without the fault or negligence of, the Licensee, including, but not limited to: unusually severe actions of the elements such as floods, earthquakes, hurricanes or tornadoes; sabotage; terrorism; war; riots or public disorders; strikes or other labor disputes; to the extent such cause or event prevents or delays performance of any obligation imposed upon the Licensee claiming such force majeure event.

2. Effective period of the License

2.1. This License shall become effective from January 1, 2003.

2.2. This License shall expire on December 31, 2003.

3. Essential Functions of the Licensed Activity

- 3.1. After the effective date of the License, the Licensee shall be authorized and obligated to carry out the following essential functions of the licensed activity of natural gas import into the RoA, provided by the Contract No. **03-590/01**, which is the integral part of the License, signed between the companies **"ITERA International Energy LLC"** and **"ArmRusGasProm"** CJSC, dated December 10, 2001.

To be imported into the RoA

a) From	<u>1 January, 2003</u> (day, month, year)	until	<u>31 December, 2003</u> (day, month, year)
	up to <u>1625000000</u> (one billion six hundred twenty-five million)		standard cubic meter (scm) of natural gas
from	<u>1 January, 2004</u> (day, month, year)	until	<u>31 December, 2003</u> (day, month, year)
	up to <u>1675000000</u> (one billion six hundred seventy-five million) scm of natural gas,		
from	<u>1 January, 2005</u> (day, month, year)	until	<u>31 December, 2003</u> (day, month, year)

up to 1675000000 (one billion six hundred seventy-five million) scm of natural gas.

- 3.2. The Licensee shall have no right to completely or partially dispose of, yield or transmit to any other entity the essential operations of the licensed activity, bases on agreement or otherwise, without the consent of the Commission.

4. Conditions of the Licensed Activity

- 4.1. The Licensee shall carry out the licensed activity in compliance with the economic efficiency principles and the effective normative-legal acts.
- 4.2. The Licensee cannot give this License for use, dispose or pledge to other entities without the consent of the Commission and without introducing amendments and (or) supplements to this License. This License shall not apply to other entities engaged in joint operation with the Licensee, including, those working with joint operation contracts, as well as to legal entities founded or operating with the participation of the Licensee.
- 4.3. The Licensee shall not become a shareholder of 25% and more shares of another Licensee or merge with any other Licensee without the permission of the Commission.
- 4.4. The shareholder possessing 25% or more of the Charter Capital of the Licensee shall have no right to purchase 25% and more of shares or stocks of the same or any other Licensee, or have financial interest, as well as sell 25% and more shares.
- 4.5. The natural gas purchase-sale contracts signed by the Licensee, as well as the contracts signed with entities providing gas transportation and (or) distribution services should comply with the model contract established by the Commission.
- 4.6. The purchase-sale contracts, signed between the Licensee and other entities carrying out a licensed activity within the Energy Sector, shall have to register with the Commission.
- 4.7. In compliance with the procedure and forms established by the Commission, the Licensee shall submit the following information and reports to the Commission:
- a) bank accounts;
 - b) the prior period activity;
 - c) forecasts of financial-economic indices for the next settlement period;
 - d) short-term and long-term loan programs with appropriate justification.
- 4.8. The accounting and reporting of the licensed activity shall comply with the accounting requirements set forth by the Republic of Armenia Legislation.

- 4.9. The accounting and reporting of the licensed activity shall be separated from the accounting and reporting of other types of activities carried out by the Licensee.
- 4.10. Each year, before April 30, the Licensee shall publish financial statements of its previous year's activity in the republican press, in forms established by the Commission. In case when the effective period of the License is less than a year, the mentioned statements shall be published within a 4-month period after the ending of the License effective period. Published statements must not contain state and official secrets.
- 4.11. Upon request of the Commission, the Licensee shall be required to conduct an independent audit of its financial-economic activity, including certain tasks assigned by the Commission.
- 4.12. The Commission shall set the tariffs for natural gas sales, as well as the tariffs for gas transportation and distribution services. During the tariff revision, Licensee's possible losses, due to the employment of such tariffs that are lower than the ones set by the Commission, shall not be taken into account.
- 4.13. During the effective period of the License, the Licensee, at its initiative, can apply to the Commission for revision of the tariff for gas sold by the Licensee, in compliance with the procedures and forms established by the Commission.
- 4.14. The Commission, at its initiative and according to the established procedures, can revise the tariff for gas sold by the Licensee, based on Licensee's financial statements and (or) results of the independent audit.
- 4.15. The qualitative characteristics of the natural gas imported by the Licensee must comply with GOST 554287 "Natural Fuel Gases for Industrial and Domestic Purposes. Technical Specifications."
- 4.16. In the event of making changes in the system of financial-economic reports established by the Commission, the Commission shall notify the Licensee of that.
- 4.17. The Licensee, in accordance with the procedures set forth by the Republic of Armenia Legislation, shall be held responsible for the accuracy of the reports on the licensed activity and any other information, submitted to the Commission.
- 4.18. The tariffs for gas sale, transportation and distribution services on the RoA domestic market shall become effective within 30 days of the publication of the corresponding Resolution.
- 4.19. In the tariff for sale of the natural gas the Commission shall take into account only those expenses, which are justified and necessary for implementation of the licensed activity.
- 4.20. The Licensee must immediately inform the Commission about those conditions that have led or may lead to any violation of the License provisions.

- 4.21. The Licensee must follow the operative instructions and orders of the Transportation system operator, according to the signed agreement.
- 4.22. The Licensee must immediately inform the Commission and Transportation System Operator about the changes in estimated volumes of the natural gas import.
- 4.23. If more than one entity is issued an RoA Gas Import License, then the actual share of each of such entities at the RoA border should be determined according to the principle established in the specific agreement signed between such entities. The disputes between Importers associated with the determination of the gas shares shall be discussed at the Commission in established procedures.

5. Oversight of the Licensed Operations

- 5.1. The Commission shall oversee the Licensee's compliance with the License provisions.
- 5.2. In order to ensure compliance with the License provisions, the Commission and its authorized representatives shall have the right of free access to the premises of the Licensee. In the course of such inspections, the Licensee must fully cooperate with and render assistance to the Commission or its authorized representatives.
- 5.3. At the Licensee's premises, the authorized representatives of the Commission shall follow the company's internal procedures, as well as the norms established by the RoA legislation.

6. Penalties

- 6.1. In case of non-compliance with, inadequate compliance with or violation of the License requirements, the Commission, being guided with Article 42 of the RoA Energy Law, is authorized to impose the following penalties:
 - a) Notification;
 - b) Tariff reduction;
 - c) Suspension of the License;
 - d) Revocation of the License

The procedures for enforcement of the above penalties shall be determined by the Commission.

- 6.2. In the event of a License revocation, the Commission and the Licensee shall be guided by Article 52 of the RoA Energy Law and the RoA Legislation.
- 6.3. The License may be terminated at the initiative of the Licensee on the basis of a notice in writing. Being guided by Article 52 of the RoA Energy Law and according to the License provisions, the Licensee shall continue the licensed

operation until the issuance of a corresponding decision by the Commission on termination or revocation of the License.

- 6.4. The Licensee shall not be liable under item 6.1 of this License if License violations were caused by Force Majeure circumstances.

7. Amendments to the License Provisions, Issuance of a Duplicate License

- 7.1. An amendments to a License can be performed in the procedures defined by the Commission on the basis of the RoA Energy Law, at the initiative of the Commission or the Licensee.
- 7.2. In the event of re-organization of the Licensee or any change of its name or location, the Licensee must apply to the Commission for re-registration within a 15-day period from the effective date of such changes, attaching corresponding documents supporting the above information, based on Article 32 of the RoA Licensing Law.
- 7.3. Within a 15-day period, the Licensee shall notify the Commission about any changes in its legal address, foundation documents and bank accounts.
- 7.4. In case of any changes in the list of Shareholders (founders) of the Licensee, the Licensee shall apply to the Commission for approval of corresponding amendments and supplements to the License provisions.
- 7.5. In the event of losing a License (loss, destruction, etc.) or extension of the License effective period, the Licensee must apply to the Commission. The procedure of issuance of a duplicate License and (or) extension of a License is regulated by the legal acts approved by the Commission.

8. Notification

8. 1. All official notifications, applications, claims or other correspondence associated with this License shall be in writing and be delivered via messenger or registered mail. All notices or other correspondence shall be considered effective only upon actual delivery or receipt, or if the notice did not reach the addressee due to the addressee's fault, upon the moment of presenting.